

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5228-04
Bill No.: SCS for HB 1468
Subject: Veterans; Workers' Compensation
Type: Original
Date: May 7, 2014

Bill Summary: This proposal would modify the law relating to workers' compensation.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|------------------|------------------|------------------|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| General Revenue | (Unknown) | (Unknown) | (Unknown) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | (Unknown) | (Unknown) | (Unknown) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 14 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|-----------------------------|-----------------------------------|----------------------------------|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| Road | (Unknown) | (Unknown) | (Unknown) |
| Second Injury | (Unknown) | (Unknown) | (Unknown) |
| Workers' Compensation Administration | (More than \$94,609) | (More than (\$100,743) | (More than \$101,768) |
| Total Estimated Net Effect on <u>Other</u> State Funds | (More than \$94,609) | (More than (\$100,743) | (More than \$101,768) |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|--|--------------|--------------|--------------|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| Workers' Compensation Administration | 2 FTE | 2 FTE | 2 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 2 FTE | 2 FTE | 2 FTE |

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|-------------------------------------|------------------|------------------|------------------|
| FUND AFFECTED | FY 2015 | FY 2016 | FY 2017 |
| Local Government | (Unknown) | (Unknown) | (Unknown) |

FISCAL ANALYSIS

ASSUMPTION

Section 287.040, RSMo. - Workers' Compensation Program Exemption for Crop Dusters:

Oversight notes this provision would exempt from workers' compensation coverage any independent contractor providing application of agricultural materials used in crop dusting, seeding, spraying, or fertilizing operations from an aircraft, and assumes such independent contractors would not be eligible for coverage under existing provisions.

Oversight assumes this provision would have no impact on the state or on local governments.

SAS:LR:OD

ASSUMPTION (continued)

Section 287.090, RSMo. - Workers' Compensation Program Exemption for Employees of Certain Charities:

Officials from the **Office of the Attorney General**, the **Department of Economic Development - Divisions of Business and Community Services and Workforce Development**, the **Department of Insurance, Financial Institutions, and Professional Registration**, and the **Department of Labor and Industrial Relations** assumed a previous version of this proposal would have no fiscal impact on their organizations.

Oversight assumes this provision would have no fiscal impact on the state or on local governments.

Section 287.957 and 287.975, RSMo. - Changes to Workers' Compensation Insurance Rating System:

In response to similar language in HB 1997 LR 6179-01, officials from the **Department of Labor and Industrial Relations (DOLIR)** assumed the effect of the changes on the premium base used to calculate the Workers' Compensation Administrative Fund tax and Second Injury Fund surcharge is unknown.

Experience Modification Factor

DOLIR officials assumed, due to the number of cases which could be affected by this bill and the complexity of annual fluctuations in the experience modification factor, two additional full-time employees would be required; an Insurance Financial Analyst I and an Auditor I to enable the Division's Self-Insurance Unit to monitor, investigate, and enforce compliance with statutory reporting requirements for injuries and medical costs by self-insured employers and group-trusts. DOLIR officials stated the annual salary of an Insurance Financial Analyst I is \$35,844 and the annual salary of an Auditor I is \$40,764.

ASSUMPTION (continued)

Contractors' Premium Adjustment Program

DOLIR officials stated the Contractors Credit Premium Adjustment Program (CCPAP) currently mandates the use of the 3rd quarter payroll for calculating the credit, although new contractors are required to use the 1st quarter of the policy period. DOLIR officials assume the proposal would allow the contractor to choose which quarter's payroll information is submitted for the premium credit calculation. DOLIR officials also assume the contractor would most likely choose to report the quarter with the highest payroll, which would give him a higher premium credit. However, the increase in the premium credit would be limited to the amount the contractor's payroll in the selected reporting quarter exceeded payroll for the third quarter. For example, if the contractor's 3rd quarter payroll was \$800,000 and the 2nd quarter was \$1,000,000 the amount of the premium credit would only be affected by the \$200,000 difference.

DOLIR officials also assumed the provisions would likely increase the overall premium credit and therefore result in a reduction in the overall workers' compensation premium base. Therefore, this change would likely reduce the Administrative Tax and Second Injury Fund Surcharge but the amount of the reduction cannot be determined at this time.

DOLIR officials also anticipated an unknown long range impact.

Oversight will include unknown revenue reductions for the Workers' Compensation Fund and the Second Injury Fund in this fiscal note.

IT impact

DOLIR officials assumed additional computer programming would be needed to capture and consolidate compliance data for this legislation. DOLIR officials stated the Division of Workers' Compensation's 2015 budget request includes a new decision item for a computer system modernization project. DOLIR officials assumed the capabilities of the new system would meet the requirements of this legislation. However, if the new decision item is not approved, DOLIR officials assume this proposal could result in substantial costs that are unknown at this time.

ASSUMPTION (continued)

Oversight assumes if the new computer system is not funded, OA-ITSD (DOLIR) would add the required functions to the existing DOLIR system. Oversight also assumes OA - ITSD (DOLIR) is provided with core funding to handle a certain amount of activity each year. Finally, Oversight assumes OA - ITSD (DOLIR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOLIR) could request funding through the appropriation process.

The DOLIR response included two additional employees and related benefits, equipment, and expense. Total employee - related cost was \$116,866 for FY 2015, \$125,688 for FY 2016, and \$127,081 for FY 2017.

Oversight assumes the DOLIR estimate of expense and equipment cost for the new FTE could be overstated. If DOLIR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOLIR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

In response to similar provisions in HCS for HB 430 LR 0916-02 (2013) officials from the **Office of Administration, Division of General Services (DGS)** assumed the proposal would prohibit an adjustment to the experience rating modification of an employer's workers' compensation program if medical cost does not exceed 20% of the split point of primary and excess losses.

DGS officials assumed the change from a fixed dollar amount of \$1,000 would allow the rating agency to increase the split point (currently at \$5,000) between claims considered primary losses and claims factored as excess losses. That change would magnify the positive effect of fewer losses for those entities that have a favorable experience modification factor below 1.00 and would further penalize those entities that have an experience modification factor above 1.00.

ASSUMPTION (continued)

DGS officials stated the experience factor is used to determine the amount the state pays for worker's compensation administrative taxes and Second Injury Fund assessments. The changes in this proposal could increase the worker's compensation taxes and Second Injury Fund assessments paid by the state, since the state currently has an experience modification factor slightly above 1.00.

DGS officials also assumed the state would continue to have a slightly higher than average experience rating modification factor and therefore would pay slightly higher workers' compensation administrative taxes and Second Injury Fund assessments under this legislation.

Oversight assumes the state would have unknown net additional cost as a result of these provisions; and also assumes local governments would have similar unknown costs. For fiscal note purposes, Oversight will indicate unknown additional costs for the General Revenue Fund, for Road Funds, and for local governments for the expected additional administrative taxes and Second Injury Fund assessments.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration, Linn State Technical College, Missouri State University, Missouri Western State University, the University of Central Missouri, the University of Missouri, St. Louis County, the City of Kansas City, the Board of Police Commissioners of Kansas City, Missouri, and the St. Louis County Directors of Elections** assumed similar provisions in HB 1997 LR 6179-01 would have no fiscal impact on their organizations.

Section 287.140, RSMo. - Notice of Dispute Regarding Medical Costs:

Changes to this provision would provide a definition for the term "Notice of Dispute" for medical costs in workers' compensation cases.

Oversight assumes this provision would have no impact on the state or on local governments.

ASSUMPTION (continued)

Section 287.221, RSMo. - Authorization for Certain Continuing Payments from the Second Injury Fund:

Officials from the **Office of the Attorney General** assumed any potential costs arising from similar language in SB 948 LR 6243-01 could be absorbed with existing resources.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assumed similar language in SB 948 LR 6243-01 would have no fiscal impact to their organization. DOLIR officials also assumed the proposal would clarify rather than expand the types of payments that can currently be made from the Second Injury Fund.

Officials from the **University of Missouri** assumed similar language in SB 948 LR 6243-01 would not have a significant fiscal impact on their organization.

Officials from **St. Louis County** assumed similar language in SB 948 LR 6243-01 would not have a direct impact on the County as any payments would come from the Second Injury fund. County officials assumed it could have some long term consequences because all self - insurers help fund the Second Injury Fund.

Officials from the **Joint Committee on Administrative Rules**, the **Office of Administration - Division of General Services**, the **Department of Conservation**, the **Department of Transportation**, **Linn State Technical College**, **Missouri State University**, **Missouri Western State University**, the **University of Central Missouri**, **Cole County**, the **City of Jefferson City**, the **City of Kansas City**, the **Board of Police Commissioners of Kansas City, Missouri**, the **Platte County Board of Elections**, and the **St. Louis County Directors of Elections** assumed similar language in SB 948 LR 6243-01 would have no fiscal impact on their organizations.

Oversight assumes any impact to employers would be an indirect result of this proposal and will not include such potential impact in this fiscal note.

ASSUMPTION (continued)

Section 287.780, RSMo. - Prohibition Against Termination of an Employee for Using Workers' Compensation Benefits:

This proposal would prohibit the discharge of an employee or discrimination against an employee when the exclusive cause of the termination or discrimination is the exercising the employee's rights under the workers' compensation program.

Oversight assumes this provision would have no fiscal impact on the state or on local governments.

Bill as a whole responses

Officials from the **Department of Economic Development - Divisions of Business and Community Service and Workforce Development** assume this proposal would have no impact on their organizations.

In response to similar provisions on other proposals, officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

In response to similar provisions on other proposals, officials from the **Joint Committee on Administrative Rules** assumed the proposal would not have a fiscal impact to their organization in excess of existing resources.

| <u>FISCAL IMPACT - State Government</u> | FY 2015 (10 Mo.) | FY 2016 | FY 2017 |
|---|-------------------------|-----------------------|-------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Cost - OA</u> Workers' compensation program assessments Section 287.957 | <u>(Unknown)</u> | <u>Unknown</u> | <u>(Unknown)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(Unknown)</u> | <u>Unknown</u> | <u>(Unknown)</u> |
| ROAD FUND | | | |
| <u>Cost - OA</u> Workers' compensation program assessments Section 287.957 | <u>(Unknown)</u> | <u>Unknown</u> | <u>(Unknown)</u> |
| ESTIMATED NET EFFECT ON ROAD FUND | <u>(Unknown)</u> | <u>Unknown</u> | <u>(Unknown)</u> |

FISCAL IMPACT - State Government
 (Continued)

FY 2015
 (10 Mo.)

FY 2016

FY 2017

**WORKERS' COMPENSATION
 ADMINISTRATION FUND**

Cost - DOLIR

Experience rating changes

Section 287.957 and 287.975

| | | | |
|-----------------------|-------------------|------------------|------------------|
| Salaries | (\$54,390) | (\$65,921) | (\$66,580) |
| Benefits | (\$27,742) | (\$33,623) | (\$33,959) |
| Equipment and expense | <u>(\$12,477)</u> | <u>(\$1,199)</u> | <u>(\$1,229)</u> |
| Total | (\$94,609) | (\$100,743) | (\$101,768) |

FTE change - DOLIR

2 FTE

2 FTE

2 FTE

Revenue reduction - DOLIR

Experience rating procedure changes

Section 287.957 and 287.975

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
 WORKERS' COMPENSATION
 ADMINISTRATION FUND**

**(More than
\$94,609)**

**(More than
\$100,743)**

**(More than
\$101,768)**

Estimated Net FTE effect on Workers'
 Compensation Administration Fund

2 FTE

2 FTE

2 FTE

SECOND INJURY FUND

Revenue reduction - DOLIR

Experience rating procedure changes

Section 287.957 and 287.975

(Unknown)

(Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
 SECOND INJURY FUND**

(Unknown)

(Unknown)

(Unknown)

FISCAL IMPACT - Local Government

FY 2015
(10 Mo.)

FY 2016

FY 2017

LOCAL GOVERNMENTS

Cost - Local governments

Workers' compensation program
assessments

Section 287.957

(Unknown)

Unknown)

(Unknown)

**ESTIMATED NET EFFECT ON
LOCAL GOVERNMENTS**

(Unknown)

(Unknown)

(Unknown)

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which are subject to workers' compensation insurance requirements.

FISCAL DESCRIPTION

This proposal would make several changes to workers' compensation statutes.

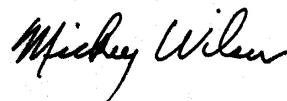
This proposal would prohibit an adjustment to the experience rating modification of an employer's workers' compensation insurance if medical cost does not exceed 20% of the split point of primary and excess losses.

This proposal would also allow, for purposes of calculating the premium credit under the Missouri contracting classification premium adjustment program, an employer to submit to the advisory organization the required payroll record information for the first, second, third, or fourth calendar quarter of the year prior to the workers' compensation policy beginning or renewal date, provided the employer clearly indicates for which quarter the payroll information is being submitted.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the Attorney General
Joint Committee on Administrative Rules
Office of Administration
 Division of General Services
Department of Conservation
Department of Economic Development
 Division of Business and Community Services
 Division of Workforce Development
Department of Insurance, Financial Institutions, and Professional Registration
Department of Labor and Industrial Relations
Department of Transportation
Linn State Technical College
Missouri State University
Missouri Western State University
University of Central Missouri
University of Missouri
Cole County
St. Louis County
City of Jefferson City
City of Kansas City
Board of Police Commissioners of Kansas City, Missouri
Platte County Board of Elections
St. Louis County Directors of Elections



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